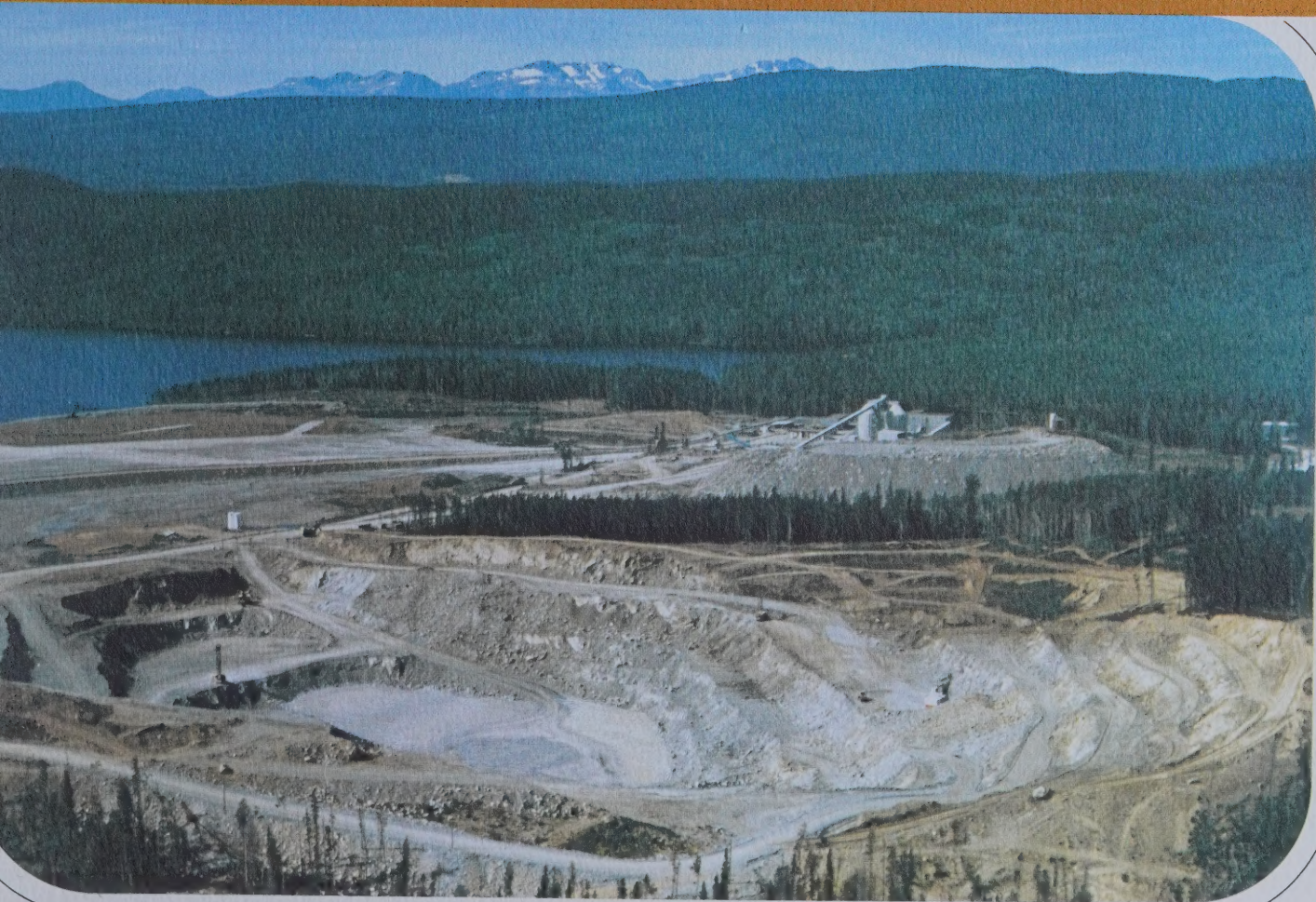


1972 GRANISLE COPPER LIMITED

16TH ANNUAL REPORT



FRONT COVER

The Granisle open-pit mine, located on an island in Babine Lake in Central British Columbia.

BACK COVER

This picture of a former tailings disposal area shows tangible results of the continuing reclamation program which is carried out at Granisle.

Directors

W. A. Clarke
J. H. Colton
T. G. Ewart
W. H. Flynn
J. B. Harrison
A. H. Hauser
R. C. Lassiter
P. R. Matthew
G. T. Smith
R. M. Sutherland, Q.C.

Officers

W. H. Flynn	Chairman of the Board
P. R. Matthew	President
J. H. Colton	Vice-President, Secretary and Treasurer
J. D. Balden	Assistant Treasurer

General Manager

J. W. Jewitt

Mine Manager

R. P. Taylor

Transfer Agent and Registrar

National Trust Company, Limited
Vancouver, Winnipeg, Toronto and Montreal

Shares Listed

Toronto Stock Exchange
Vancouver Stock Exchange

To the Shareholders:

The 1972 fiscal year marked a period of improved financial performance and continuing expansion of production facilities for Granisle Copper Limited. This was accomplished despite the ongoing adverse influences of lower world copper prices, increased exchange price of the Canadian dollar, and rising production costs.

Results for the year ended September 30, 1972 showed net income of \$2,025,571, or \$0.61 per share, compared with \$1,906,399, or \$0.57 per share (unaudited), for the previous year. Total value of production of copper, gold and silver was \$10,467,450 for fiscal 1972, compared to \$9,741,922 for 1971.

The program to increase rated production capacity of the Granisle plant from 6,500 to 14,000 tons per day is now complete; however, a time period of testing and adjustment will be necessary to achieve designed production. Ore reserves were 85,000,000 tons at year-end, with an average copper content of 0.43%, mineable at an ore-to-waste ratio of 1 to 1.2.

Value of production increased approximately 7% during the year to \$10,467,450, due primarily to increased output of copper, gold and silver, and to the higher market prices prevailing for the latter two metals. The increased cost of production during 1972 reflects rising labour and material costs, as well as the incremental production cost added by the higher tonnage of waste removed this year.

In April, 1972, the terms and conditions governing the sale of substantially all of Granisle's projected production were concluded for the remaining five years of a contract with a Japanese group of companies. The new agreement covers the sale of con-

centrate derived from the expanded production at Granisle. It provides for concentrate containing 14,000 metric tons of copper in the first contract year ending March 31, 1973, 18,000 tons in the second year, and 16,000 tons in each of the three remaining years. Under the contract terms, the Company will sustain higher treatment and refining payments, and deferred payments on shipments; these costs will increase from approximately 6¢ per pound of copper in the contract year ended March 31, 1972, to 9¢ in the contract year ending March 31, 1973, and an average of 11¢ per pound of copper over the four following years.

Concentrate sales contracts are based on the London Metal Exchange prices for copper, which are expressed in pounds sterling per dry metric ton and converted to U.S. cents per pound for shipment value calculations. Contract payments are made in U.S. dollars, which are then exchanged for Canadian dollars. The continued reduced exchange value of the pound sterling has a progressive effect upon the value of concentrate production: copper prices as expressed in U.S. currency are then lowered, and a higher exchange price for the Canadian dollar in turn reduces the value of production, and thus profitability, upon conversion from U.S. to Canadian monetary units.

Copper prices averaged 48.7¢ U.S. per pound for the year ended September 30, 1972, compared with an average of 49.9¢ for the previous year. Since year-end prices have continued to be weak — the average price for the week ended December 15, for example, was 46.1¢ U.S. per pound.

The Company reached a collective agreement with the United Steel Workers of

America, Local 898, in January 1972, which called for an average wage increase for mine workers of approximately 10% over a 30-month period. Terms and conditions of this labour agreement generally were in accordance with recent trends in the industry.

The Company is continuing in joint exploration activities with The Granby Mining Company Limited. This venture, in which Granisle has a one-third interest, is investigating new mineral and coal deposits. While primary exploration activities have centered in British Columbia, mineral deposits in foreign areas also are being examined.

Your Company has an interest in a property optioned by The Granby Mining Company Limited from Kennco Explorations, (Canada) Limited located about 80 miles by road south of Houston, British Columbia, a station on the Canadian National Railway and Highway 16 between Prince George and Prince Rupert.

Granisle through its participation with Granby in exploration has the right to acquire up to a 23 1/3% ownership interest in the property subject to fulfillment of certain terms and conditions. A drilling program has been carried out which, together with previous drilling by Kennco, has indicated a zone of copper mineralization with a potential of 16,000,000 tons of .66% copper and an additional 15,000,000 tons of .35% copper. \$77,000 has been expended by Granby on the property to the end of 1972. A feasibility study cannot be made until further drilling is done. Accordingly, no value can be placed upon the property at present. Drilling will be resumed as soon as weather conditions permit. Generally speaking, at this time a deposit of greater extent, higher grade of ore, or both, than previously would have been required, has to be demonstrated in order to justify the opening of any new mine because of severely

Details of production are as follows:—

	Year ended September 30	
	1972	1971
Tons Ore Treated	2,268,963	2,343,420
Average Tons Treated per Day	6,199	6,420
Copper Content (%)57	.55
Tons Waste Removed	2,872,558	2,162,339
Saleable Metal Produced:		
Copper (Lbs.)	22,859,826	22,049,358
Gold (Ounces)	12,864	10,329
Silver (Ounces)	120,905	98,339

lowered world copper prices, a probable world shortage in smelting capacity which could substantially impair the marketing of new copper concentrate production, and uncertainty relating to possible higher taxation in British Columbia.

On December 29, 1972, the Boards of Directors of the Company, The Granby Mining Company Limited, and Zapata Corporation announced that they had abandoned the previously announced amalgamation of Granisle, Granby, and a subsidiary of Zapata because of the denial of certain tax rulings by the Canadian Department of National Revenue and the possible adverse Canadian tax results to the companies and their shareholders. The abandonment was made pursuant to the terms of the amalgamation agreement among the amalgamating companies which contemplated the obtaining of appropriate legal opinions and the determination that consummation of the amalgamation would not be contrary to the best interests of the companies and their share-

holders. Additionally, the management of Granby announced that its Directors had authorized the making of a cash offer to acquire the outstanding shares of Granisle not presently owned by Granby or under contract to Zapata at a price of \$10.00 per share, subject to satisfaction of all applicable legal requirements. Definitive details will be provided and the offer commenced as soon as appropriate documents can be prepared.

The Company Annual General Meeting will be held in the Bayshore Inn, Vancouver, British Columbia, at 2:00 p.m., on Wednesday, January 31, 1973.

The Company's Officers and Board of Directors gratefully acknowledge the untiring efforts of all employees.

On behalf of the Board,

P. R. Matthew,
President.

Vancouver, British Columbia
January 2, 1973.

**To the Shareholders,
Granisle Copper Limited:**

We have examined the balance sheet of Granisle Copper Limited (a British Columbia company and subsidiary of The Granby Mining Company Limited) as of September 30, 1972, and the related statements of income, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, retained earnings and source and application of funds present fairly the financial position of Granisle Copper Limited as of September 30, 1972, and the results of its operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, British Columbia
October 19, 1972 (except with respect to the matter discussed in Note 8 which is dated December 28, 1972).

BALANCE SHEET

ASSETS

	September 30	
	<u>1972</u>	<u>1971</u>
Current assets (Note 2):		
Cash and short-term bank deposits	\$ —	\$ 6,361,466
Accounts receivable	625,792	259,508
Metals in concentrates, at estimated realizable value (Note 5)	3,845,971	1,970,685
Materials and supplies, at the lower of average cost or replacement cost	1,215,912	929,770
Prepaid expenses	78,851	83,609
	<hr/>	<hr/>
Total current assets	5,766,526	9,605,038
Refundable deposits	326,433	415,985
Property, plant and equipment, at cost (Notes 3 and 7)	24,622,414	16,087,684
Less accumulated depreciation and depletion	6,135,930	5,359,267
	<hr/>	<hr/>
Net property, plant and equipment	18,486,484	10,728,417
Mine development and pre-production expenditure, at cost less amortization	—	59,017
	<hr/>	<hr/>
	<u>\$24,579,443</u>	<u>\$20,808,457</u>

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30	
	1972	1971
Current liabilities:		
Bank loan and overdraft (Note 5)	\$ 1,845,516	\$ —
Accounts payable and accrued liabilities	676,092	951,137
Income taxes payable	25,525	140,744
Total current liabilities	2,547,133	1,091,881
Deferred income taxes (Note 4)	2,023,000	680,000
Shareholders' equity:		
Capital stock:		
Shares of no par value. Authorized 4,000,000 shares		
Issued 3,329,919 shares	2,594,982	2,594,982
Retained earnings, per accompanying statement	17,414,328	16,441,594
Total shareholders' equity	20,009,310	19,036,576
	<u>\$24,579,443</u>	<u>\$20,808,457</u>

Commitments (Note 7)

On behalf of the Board:

WILLIAM H. FLYNN, Director

P. R. MATTHEW, Director

See accompanying notes to financial statements.

GRANISLE COPPER LIMITED

STATEMENT OF INCOME

	Year ended September 30	
	1972	1971 (unaudited)
Value of production of copper, gold and silver	\$10,467,450	\$ 9,741,922
Cost of production, including administration	6,322,320	5,731,304
Depreciation and depletion (Note 3)	960,263	1,421,466
Amortization of pre-production expenditure	59,017	477,966
	<u>7,341,600</u>	<u>7,630,736</u>
Operating income	3,125,850	2,111,186
Investment and other income	<u>242,721</u>	<u>511,213</u>
Income before taxes	3,368,571	2,622,399
Provision for income taxes (Note 4):		
Current	—	100,000
Deferred	<u>1,343,000</u>	<u>616,000</u>
	<u>1,343,000</u>	<u>716,000</u>
Net income for the year (Note 3)	<u>\$ 2,025,571</u>	<u>\$ 1,906,399</u>
Net income per share (Note 3)	<u>\$.61</u>	<u>\$.57</u>
Cash dividends per share in U.S. dollars	<u>\$.32</u>	<u>\$ 1.20</u>
Number of shares outstanding	<u>3,329,919</u>	<u>3,329,919</u>
See accompanying notes to financial statements.		

STATEMENT OF RETAINED EARNINGS

	Year ended September 30	
	1972	1971 (unaudited)
Balance at beginning of year	\$16,441,594	\$18,588,190
Net income for the year	<u>2,025,571</u>	<u>1,906,399</u>
	18,467,165	20,494,589
Deduct cash dividends	<u>1,052,837</u>	<u>4,052,995</u>
Balance at end of year	<u><u>\$17,414,328</u></u>	<u><u>\$16,441,594</u></u>

See accompanying notes to financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended September 30	
	1972	1971 (unaudited)
Funds provided by:		
Operations:		
Net income for the year	\$ 2,025,571	\$ 1,906,399
Depreciation, depletion and amortization	1,019,280	1,899,432
Deferred income taxes	1,343,000	616,000
Other	8,659	8,314
Funds provided by operations	4,396,510	4,430,145
Deposits refunded	89,552	85,288
Disposal of equipment	39,225	30,080
Total funds provided	4,525,287	4,545,513
Funds applied to:		
Purchase of property, plant and equipment	8,766,214	1,960,316
Dividends paid	1,052,837	4,052,995
Total funds applied	9,819,051	6,013,311
Increase (decrease) in working capital	(5,293,764)	(1,467,798)
Working capital at beginning of year	8,513,157	9,980,955
Working capital at end of year	\$ 3,219,393	\$ 8,513,157

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS September 30, 1972

1. The balance sheet as of September 30, 1971, which is presented for comparative purposes, was examined and reported on by Chartered Accountants other than Arthur Andersen & Co.

2. Current assets in United States dollars have been converted into Canadian dollars at the rate of exchange prevailing at the respective Balance Sheet dates.

3. **Property, plant and equipment:**

Particulars of the cost of the property, plant and equipment are as follows:

	September 30	
	1972	1971
Mineral claims	\$ 65,099	\$ 65,099
Land	24,508	23,839
Mine buildings and equipment	19,487,459	13,222,566
Mobile and other equipment	5,045,348	2,776,180
	<u>\$24,622,414</u>	<u>\$16,087,684</u>

Depreciation of the mine buildings and equipment was based on the straight-line method at 8% of cost in prior years. In 1972, following the establishment of increased ore reserves, which increased the estimated life of the mine, the rate was adjusted to depreciate these assets on a straight-line basis over the extended life of the mine; 19 years from September 30, 1971.

Depreciation of the mobile equipment, with the exception of drills and shovels, has been calculated based on the diminishing balance basis at 30%. Depreciation on drills and shovels was calculated on a diminishing balance basis at 30% in 1971 and prior years but was changed to the straight-line basis at 10% in 1972 to more accurately reflect the physical life of these assets.

If the above changes in rates and method of depreciation had not been made in 1972 net income for the year would have been approximately \$360,000 lower and net income per share would have been approximately \$.11 lower.

No depreciation has been provided on plant under construction.

Amortization of pre-production expenditure has been calculated on the straight-line method at 20% and the balance of these costs were fully amortized by November 30, 1971.

4. **Income taxes:**

The depreciation and amortization which will be claimed for income tax purposes will exceed the amount recorded in the accounts and accordingly a provision has been made for the income taxes which have been deferred. Depreciation and amortization had been provided during the tax-free period which did not have to be claimed for income tax purposes and as a result the provision for deferred income taxes for the year ended September 30, 1971, has been reduced by \$310,000.

5. **Bank loan:**

Metals in concentrates are pledged as security for the bank loan and overdraft.

6. **Administration expenses:**

Remuneration of directors and senior officers (as defined in the British Columbia Securities Act) amounted to \$128,215 in the year ended September 30, 1972.

7. Commitments:

The company is expanding its mining facilities at Babine Lake, British Columbia, at an estimated cost of \$10,200,000. At September 30, 1972, total expenditure incurred on this expansion was \$9,800,000 and capital commitments amounted to approximately \$100,000.

8. Events subsequent to date of auditors' report:

On August 26, 1971, Zapata Canada Limited (Zapata Canada) a wholly-owned subsidiary of Zapata Corporation, acquired 50.75% of the outstanding shares of The Granby Mining Company Limited (Granby). During 1972, the respective Boards of Directors of the Company, Granby, and Zapata Canada approved an agreement providing for the amalgamation of the companies subject to shareholder approval. Under the terms of the proposed amalgamation, each outstanding share of the Company and Granby (other than shares owned by Granby and Zapata Canada, respectively) would be exchanged for .3583 and .8183, respectively, preferred shares (an aggregate of 971,420 preferred shares) of Zapata Granby Limited, the continuing company after the amalgamation. The Granby shares owned by Zapata Canada and the Company shares owned by Granby would be cancelled upon the effectiveness of the amalgamation and no preferred shares would be issued with respect thereto. The preferred shares would be exchangeable at any time for shares of common stock of Zapata Corporation at an initial rate not greater than one share nor less than three-fourths share of common stock of Zapata Corporation for each preferred share.

Civil actions have been filed by certain minority shareholders of the Company and Granby, naming as defendants Zapata Corporation and certain directors and/or officers of the Company and Granby, and alleging, among other things, violations of the Securities Exchange Act of 1934 and seeking to enjoin the companies from completing the proposed amalgamation, and further, seeking compensatory and punitive damages. Messrs. Fasken & Calvin as counsel for Granisle and Granby have expressed their opinion that such actions should not result in any material loss or liability on the part of either company.

Certain requested rulings, related to Canadian tax consequences of the proposed amalgamation for the constituent companies and their shareholders, were denied by the Canadian Department of National Revenue; and the respective Boards of Directors of the constituent companies and of Zapata Corporation have subsequently abandoned the amalgamation in the absence of those requested rulings, particularly in the light of numerous legal, tax, and business uncertainties introduced by the new Canadian Income Tax Act.

On December 28, 1972, the Directors of Granby authorized the making of a cash offer to acquire the outstanding shares of the Company, not owned by Granby or contracted to Zapata Canada Limited, at a price of \$10 per share, subject to the satisfaction of all applicable legal requirements.

